

China Is Playing a Growing Role in Global Vegetable Trade

By Elizabeth Mello

With China's grain production no longer under heavy government protection, many Chinese farmers are switching to production of more profitable high-value commodities, such as vegetables.

Through foreign direct investment flowing into the agricultural sector, China is developing production agriculture for vegetables. High-quality seed imports, improving domestic seed production and availability of better agricultural chemicals and equipment, as well as advances in greenhouse technology, are moving China along the road to becoming a major producer of export-quality vegetables.

China as a Competitor

For the U.S. vegetable industry, China's emergence as a commercial vegetable producer will likely intensify competition for third-country markets, in particular Japan, historically a major market for U.S. vegetables.

China has now claimed the position of No. 1 supplier of fresh vegetables to Japan, reaching the port of Kobe in less than 16 hours. Meanwhile, Japan's economic difficulties have also created opportunities for Chinese suppliers of inexpensive vegetables.

On the other hand, several factors are restricting China's competitive threat. Although China is making progress in production capacity, its domestic demand could possibly absorb most of it. Chinese agriculture is still evolving from a com-



munal system. Small plots of land are prevalent, Western-style cooperatives are still illegal and a socialist mindset continues to affect efficiency.

Phytopsanitary techniques and infrastructure limitations also pose challenges to Chinese vegetable production. China's soil is significantly depleted due to little crop rotation and heavy use of agricultural chemicals, which could raise further phytopsanitary or chemical use concerns among importers.

Infrastructure is still greatly lacking. Controlled-atmosphere technology,

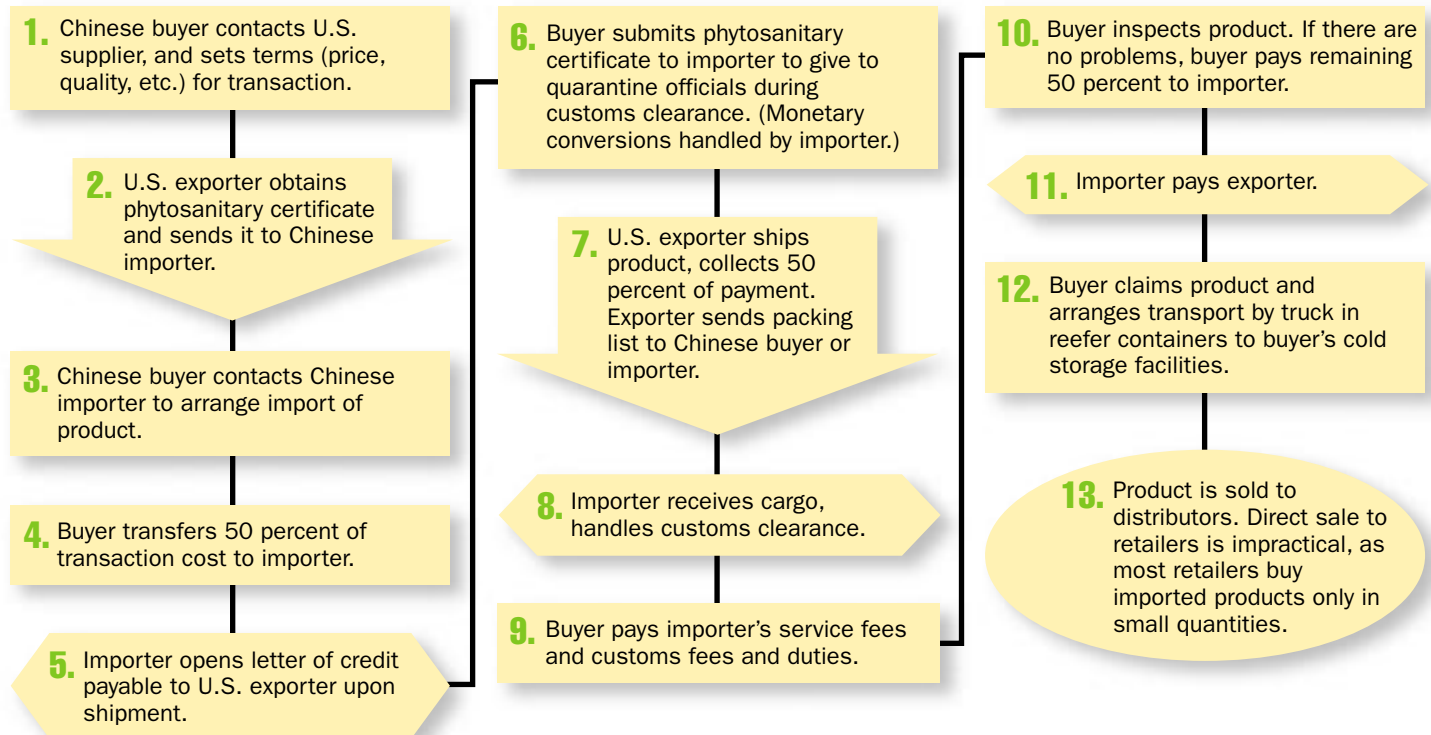
hydrocoolers and refrigerated transport, key links in the handling chain, are uncommon. As a result, the shelf life of Chinese produce can be quite limited.

Recent trade disputes involving vegetables have left tensions between China and Japan. In one case, Japan placed quotas on Chinese string onions and shiitake mushrooms, to which China responded with retaliatory tariffs on Japanese automobiles.

Prospects for U.S. Vegetables

Meanwhile, China's own market for

Follow That Vegetable! Tracing U.S. Celery Along the Import Path



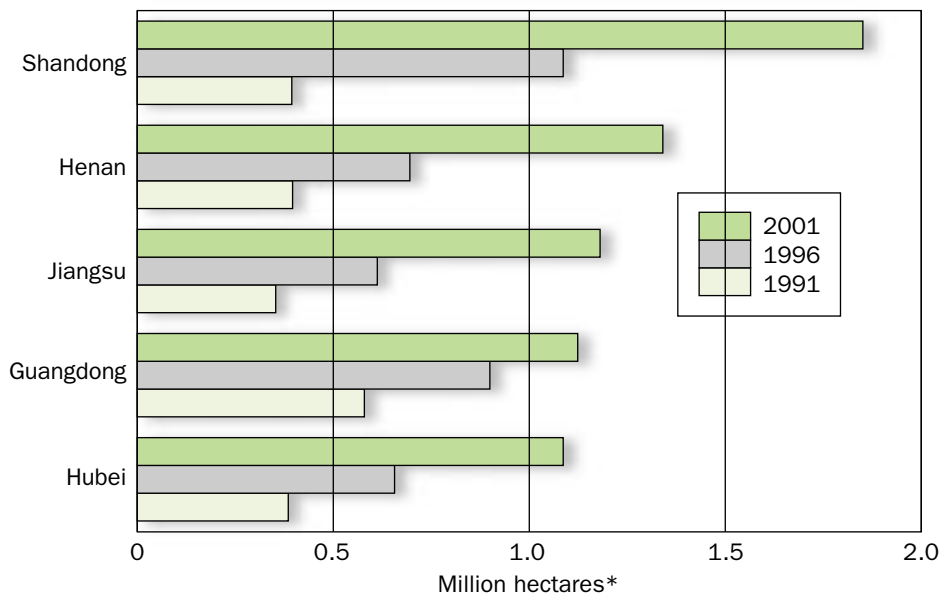
vegetable imports is growing. Economic reform and market liberalization, removal of price controls and foreign exchange controls and movement toward removal of import licensing have enhanced the possibilities for exports to China.

The rapid influx of the population to urban areas, in tandem with strong income growth, is causing diversification in the Chinese diet and creating demands for high-value and specialty food products.

Demand for high-quality foods has increased dramatically. Consumers are more concerned with food safety and quality. China's longstanding one-child policy prompts parents to give their children the best diet within their means. Organic or "green" produce is gaining in



Planted Acreage Growing by Leaps and Bounds in China's Major Vegetable-Producing Provinces



acclimated to Western-style foods.

- International tourism in China is expanding, so hotels are looking for reliable suppliers of quality Western vegetables, often including high-value, fresh cut produce.
- Home meal replacement, already growing in popularity in China, also creates opportunities for U.S. cut fresh vegetables and those sold in bulk.
- While overall U.S. vegetable exports to China are currently declining, U.S. products are still finding niche markets in more cosmopolitan urban areas, where demand for higher quality foods is bigger than ever. ■

popularity, as are Western foods, spurring demand for Western vegetables.

China's ongoing retail revolution means that U.S. vegetables can be carried at and sourced from large chains such as Wal-Mart, Carrefour and Metro. Government tax policies have created difficulties for wet markets, and their presence is decreasing.

Several factors limit U.S. vegetable exports to China in the near term:

- U.S. vegetables are rarely price competitive with domestic products. U.S. vegetable suppliers and exporters have to rely on the uniqueness and quality of their products to set them apart from the crowd.
- The import path for vegetables in China is still complicated and rigid. Exporters are permitted to deal only with import license holders at the present time.

- Receiving payment may be an issue. Vegetable exporters usually request 50 percent of the payment upon shipment, and the remainder when the product is received, provided it meets the buyer's standards.

But the following factors could support growth in U.S. vegetable sales:

- High-end supermarkets—including Yao Han and Oliver's, catering to expatriates and higher income Chinese—offer good niche-market opportunities. Fresh cut and specialty vegetables are selling well at this level.
- The growth of hotel, restaurant and institutional opportunities in China is phenomenal, with national figures showing the sector doubling between 1998 and 2002, with annual growth averaging 15 percent for the period. More Western foods are being eaten out, and the younger generation is

The author is a marketing specialist with FAS' Horticultural and Tropical Products Division. Tel.: (202) 720-9903; Fax: (202) 690-3346; E-mail: Elizabeth.Mello@usda.gov

For details, see FAS Report "China's Growing Role in Agricultural Trade." To find it on the Web, start at www.fas.usda.gov/http/circlst.html and scroll down to International Trade Reports.

